



Affordable Housing Committee Staff Report

AGENDA TITLE: Proposals for New Affordable Multifamily Development Projects

MEETING DATE: April 7, 2021

PREPARED BY: Sarah Bontrager, Housing and Public Services Manager

RECOMMENDED ACTION:

Staff recommends that the Affordable Housing Committee (Committee) discuss the affordable housing proposals received and select one or more proposers to move forward to the loan application stage. Alternately, the Committee may choose to reject both proposals and elect to wait to review the second phase of proposals (due May 19).

BACKGROUND INFORMATION:

The City has an Affordable Housing Fund (AHF), which is generated by fees on new residential and non-residential development. The AHF must be used to support housing opportunities for low-income households, one option for which is to subsidize new affordable apartment construction. Consistent with the Affordable Housing Loan Program Guidelines, the City released a Request for Proposals (RFP) when the unallocated balance of the AHF exceeded \$5 million in funding available for loans.

In February, the City released an RFP soliciting eligible multifamily affordable housing projects (see **Attachment 1**). The RFP provided minimum criteria for proposals, with a focus on addressing community housing needs and homelessness, maximizing funding sources, and innovation in project design. The RFP had two phases:

- Phase I: Developers planning to submit proposals for projects that would submit a 9% tax credit financing application in the July 2021 funding round were due March 24. Proposals submitted by this deadline must be ready for acquisition and construction activities, including having secured land.
- Phase II: Developers planning to pursue other funding sources, such as 4% tax credit financing, must submit proposals by May 19. Proposals under this phase may include those where the developer has a specific location in mind and those that are more conceptual.

Staff anticipated selecting one project to advance to compete in the July 2021 9% tax credit financing round (Phase I), and one to two more projects in Phase II. Developers who are not selected for funding in Phase I may resubmit for in Phase II, either with the same or a revised project.

ANALYSIS:

The City received two responses to the RFP, both from for-profit housing developers:

- Aspen Grove Villas is a 126-unit family project proposed by CRP Affordable Housing and Community Development (see **Attachment 2**).

- The Villages at Bilby is a 126-unit family project proposed by The Pacific Companies (see **Attachment 3**).

At this meeting, the Committee will evaluate the proposals received and determine which developer should move forward to the loan application stage. After the loan application is received and underwritten by staff (including negotiation of loan terms), the Committee will perform an independent review of the loan application and return the loan package to staff with their recommendation, which may include, but is not limited to: 1) continued negotiation and collection of additional information requested from the developer, 2) a recommendation for loan approval by the City Council, or 3) a recommendation for denial by the City Council.

Threshold Requirements

The RFP had six main threshold requirements:

- The project must meet certain income targets:
 - For 9% tax credit projects, a minimum of 58% of units for very low-income households (50% of area median income (AMI) or below), with inclusion of extremely low-income units (30% of AMI or below) strongly encouraged. All other subsidized units must be affordable to households earning at or below 60 percent of the area median income, with the exception of one to two unrestricted manager units. Villages at Bilby met this threshold; Aspen Grove Villas presented a hybrid 9% and 4% tax credit project that met this threshold for the 9% portion of their project only.
 - For non-9% tax credit projects, all subsidized units must be affordable to households earning at or below 80% AMI, with the exception of one to two unrestricted manager units. This would generally exclude a manager unit. Both proposals met this threshold.
- The developer must have a successful background in the provision of housing to extremely low-income and very low-income households, including the associated service component. Both proposers have team members with experience constructing, maintaining, and managing projects similar to the one proposed. However, The Pacific Companies has a greater depth of experience as a company, with most of CRP's projects being in the construction or funding phase.
- The project location must meet the criteria for a 9% tax credit project. Generally, this would be a project near services, shopping, and transit resources. Both proposers expect to obtain the maximum number of points for site amenities in a tax credit application. Both projects are in the South East Policy Area, and neither is particularly close to services or shopping, though buildout of SEPA will increase nearby amenities for both properties. Both projects are in what the California Tax Credit Allocation Committee (TCAC) considers the highest opportunity zone, which provides a substantial portion of the site amenities points.
- The project must include on-site social services providing resident support for no less than 15 hours per week. Such services may include up to 10 hours per week of after-school programming and/or senior activities. Villages at Bilby met this threshold. Aspen Grove Villas did not, and provided a social services MOU that provides for only about three hours per week of social services.
- The project must offer a repayment schedule that provides for meaningful loan repayment at the earliest point during the loan term. Both proposers offer payment based on residual receipts. The Villages at Bilby would offer annual residual receipts payments to the City, with a projected annual payment of around \$27,200 in Year 1 and rising to about \$51,000 in Year 15. Aspen Grove Villas would provide 50% of residual receipts to the City after paying their deferred developer fee; the City would not see any payment until Year 14 at the earliest. Effectively, this means that both loans would be negatively amortizing.

- The project must be deed-restricted to provide affordable rents and occupancy for a minimum of 55 years. Both proposers accept this term, which is generally also required for tax credit financing.

Project Comparison

The table below shows a side-by-side comparison of some of the key features of each project.

	Aspen Grove Villas					Villages at Bilby				
Developer	CRP Affordable Housing & Comm Dev					The Pacific Companies				
Type of project	Family					Family				
Location	8668 Poppy Ridge Road					NE corner of Bilby and Big Horn (parcel TBD)				
Nearby amenities	Adjacent to single-family homes. Nearest middle/high school about 1 mile away; nearest elementary school is 1.5 miles away. Very limited shopping/dining options, though some would likely be built nearby.					Will be adjacent to single-family homes and a park (both proposed). Nearest middle/high school about 0.9 miles away; nearest elementary school is 1.4 miles away. Very limited shopping/dining options, though some would likely be built nearby.				
Affordable unit description ¹	AMI	Total	1BD	2BD	3BD	AMI	Total	1BD	2BD	3BD
	30%	19	2	12	5	30%	14	6	4	4
	40%	-	-	-	-	40%	20	8	6	6
	50%	54	6	40	8	50%	51	20	15	16
	60%	21	6	10	5	60%	40	14	14	12
	80%	30	1	13	16	80%	-	-	-	-
	TOTAL	124	15	75	24	TOTAL	125	48	39	38
Total number affordable units	124					125				
Total residential square footage	106,938					99,687				
Total project cost	\$56,443,131					\$47,599,163				
Cost per unit	\$447,961					\$377,771				
Cost per residential sq. ft.	\$527.81					\$477.49				
Loan request	\$5,000,000					\$4,000,000				
City subsidy per affordable unit	\$40,323					\$32,000				
Project amenities	Swimming pool, community building, barbeque area, children's play area.					Community building with fitness equipment and computers, swimming pool, children's play area.				
Site control status	Purchase agreement expiring 3/18/22					Purchase agreement expires if not awarded funding under 9% phase of this RFP				
Met RFP thresholds	No					Yes				
Tie breaker score	71.6% ²					37%				

¹ Each project also includes a manager unit, which is not income-restricted. Aspen Grove Villas has two three-bedroom manager units. Villages at Bilby has one two-bedroom manager unit.

² This high score is in part a factor of the hybrid 9%/4% structure, but the benefit requires the 4% application to be submitted first, which would push the 9% application to 2022.

Scoring

A scoring rubric for each project is included (**Attachment 4**) to facilitate Committee member review and scoring of the proposals. In the scoring rubric, staff has provided some project-specific comments to assist in the review.

Next Steps

At this meeting, the Committee will evaluate the proposals received and determine which developer, if any, should move forward to the loan application stage. The loan application stage will provide additional information that may be used in underwriting the project, including an appraisal, audited financial statements, 30-year pro forma, Articles of Incorporation, and 501(c)(3) letter(s).

The Affordable Housing Loan Program Guidelines spell out the steps on making a funding recommendation to the City Council. Once the complete loan application is submitted by the developer, staff will complete underwriting, which includes an analysis of the project pro forma, review of due diligence documents, and negotiation of loan terms. Following the completion of staff's underwriting, staff will make a recommendation to the Committee. The Committee then performs an independent review of the application and recommends either that staff continue to negotiate or collect additional information from the developer, that the Council approve the loan, or that the Council deny the loan.

Staff expects the Committee to discuss a recommendation in late May, with the Council considering the loan on June 23. The 2021 second round application for 9% tax credits is due July 1. A City loan commitment is necessary in order for an application to be competitive.

Options

The Committee has three primary options:

1. Request a loan application from one of the proposers.
2. Request a loan application from both of the proposers. Both loan packages could be underwritten to allow the Committee to make a recommendation on each using more complete information. However, the Committee can ultimately select only one project to move forward in the 2021 9% tax credit round; completing a tax credit application is a significant undertaking and selecting projects that would compete against one another is not a good use of resources.
3. Reject both proposals. As a part of rejecting the proposals, the Committee may elect to wait to review the second phase of proposals (due May 19).

FISCAL IMPACT:

At the time the RFP was released, funding available in the AHF was around \$8 million, from which staff anticipated funding two to three loans. The proposers are requesting loans of \$4 million and \$5 million, which together would exceed currently available funding. Additionally, the second phase of the RFP (focusing on projects with funding sources other than 2021 9% tax credits) is expected to provide several additional options for developer partnership on affordable housing projects.

The more detailed analysis of the loan application and underwriting stage of the process will provide a greater understanding of fiscal impact, including actual loan amount and repayment schedule.

ATTACHMENTS:

1. Request for Proposals (includes Q&A and Affordable Housing Loan Program Guidelines)
2. Aspen Grove Villas proposal – CRP Affordable Housing and Community Development
3. Villages at Bilby proposal – The Pacific Companies
4. Scoring Rubrics